



The Fiscal Context for the 2005-07 Budget

This discussion offers our revenue and caseload trends information as of June 2004.

Recovery from the 2001 recession will continue through Fiscal Year 2005

The National Bureau of Economic Research determined that the end of the 2001 national recession occurred in November 2001. The recession lasted eight months, slightly less than average for recessions since World War II. However, the recovery is the longest without a sustained increase in employment in postwar history. Washington State has been affected in much the same way as the nation. Wage and salary employment in Washington State is not expected to regain its Fiscal Year 2001 peak until Fiscal Year 2005. Washington's outlook anticipates recovery in Fiscal Year 2004 and slightly less than average growth in Fiscal Year 2005.

The economy and revenue are predicted to grow at a moderate pace in 2005-07

The Economic and Revenue Forecast Council forecast for the 2005-07 Biennium, issued in June 2004, predicts a moderate rebound, but not better than "average growth" in state personal income. A continuing slump in the world's airline industry suggests that the recovery in the state's aerospace industry will be slow. Unless another regional industry can provide the impetus for strong growth, the state economy (as measured by personal income) is expected to grow at a moderate average annual rate of 6.3 percent in the 2005-07 Biennium.

Reflecting the moderate predicted rebound in state personal income growth, as well as statutory requirements that transfer additional state revenue to local school districts and provide tax law changes, revenue for the 2005-07 Biennium is projected to increase by about 4.75 percent annually. Expected revenue for the 2005-07 Biennium is \$24.750 billion.

Population and caseload trends will affect the budget

The latest forecast of the state population (November 2003) predicts general population growth rates of 1.2 percent for Fiscal Year 2006 and 1.3 percent for Fiscal Year 2007. Changes in the number of persons in selected age groups within the general population will place new demands on, and make new contributions to, the state's economy and government. Similarly, growth or stabilization of certain caseloads may have a significant impact on the amount of General Fund-State revenues available for other uses. There are several examples where population or caseload trends might affect the state budget:

- The K-12 school-age population, which totals over 1.1 million children, is forecast to remain relatively stable through 2010. This reduces the budget pressures associated with enrollment in the K-12 system, although other budget pressures remain. Growth for 2005 through 2007 is forecast at only 0.3 percent for the population age 5 through 17. Public school enrollment growth is, however, somewhat greater than anticipated because of crossover from private schools fostered by the slow economy and increased services to home-schooled students.
- The 85-and-over age group will increase by nearly 8,700 over the 2005-07 period. This is an increase of over 4 percent per year for the next biennium and may impact long-term care caseloads.
- The college target population, ages 19 through 29, will increase by nearly 50,000 over the 2005-07 Biennium. This is an increase of over 2 percent per year and will continue the budget pressures in post-secondary education.
- The Corrections population is forecasted to grow at a lower rate than the general population, about 1 percent per year for 2006 and 2007.
- Medical assistance caseloads should increase somewhat faster than the general population. However, the cost per person in this caseload depends on medical inflation and other factors that determine budget pressures.

Other factors will also create challenges for the 2005-07 Biennium.

Several other factors point toward a “gap” between expected revenue and initial expenditure estimates for 2005-07:

- The existing General Fund-State balance depends on one time federal fiscal relief of up to \$400 million.
- Under current law, an anticipated increase in state agency pension contributions and new revenue diversions from the General Fund to support class size reduction will cost over \$700 million in the 2005-07 Biennium.
- Health care cost “inflation” is expected to continue to rise in double digits, outpacing general inflation and population growth.
- The current biennial budget does not include cost of living adjustments for employees or vendors.

You can find more detailed caseload, population, and revenue forecast information at these web sites:

<http://www.cfc.wa.gov> and
<http://www.ofm.wa.gov/forecasting/sitemap.htm>

OFM prepares a six-year financial outlook

The Office of Financial Management periodically examines the longer-term implications of the current General Fund-State budget, current policies affecting the budget, and revenue trends. The “six-year outlook” examines projected expenditures, revenues and ending fund balance under a specific set of assumptions, which are described below.

You can access the six-year outlook at:
<http://www.ofm.wa.gov/fiscal/outlook/index.htm>